October 29, 2024

United Breweries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/ Short-term – Non-fund Based/ Fund-based	1,380.0	1,380.0	[ICRA]AA+(Stable)/ [ICRA]A1+; reaffirmed
Short-term – Commercial Paper	100.0	100.0	[ICRA]A1+; reaffirmed
Total	**1,480.0**	**1,480.0**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation continues to consider United Breweries Limited's (UBL) strong brand portfolio and established market position in the Indian beer industry, complemented by its wide manufacturing and distribution footprint spread across the country. The ratings also note UBL's strong parentage and exceptional financial flexibility as it is a 61.52% subsidiary of Heineken NV (Heineken; rated Moody's A3/Stable). The ratings also continue to favourably factor in UBL's strong financial profile, characterised by robust debt protection metrics and strong liquidity position. Though the highly regulated nature of the industry, with extensive Government controls on advertising and taxes, restricts growth to an extent, the same creates entry barriers for new entrants, thereby providing competitive advantages to incumbents like UBL. ICRA has also considered the healthy long-term demand outlook for beer in the domestic market, driven by favourable demographics, young generation's preference for beer, increasing disposable income and favourable climatic conditions of the country.

UBL's revenue growth stood at 8.3% in FY2024, which was ahead of volume growth of ~1.8%, primarily supported by price/mix benefits and premiumisation efforts. The company's revenue growth stood at 8.8% in Q1 FY2025 wherein operations were partly impacted by the General Elections. UBL's operations in FY2024 were impacted by elevated prices of key inputs like barley and glass, resulting in an operating margin of 8.6% against 8.2% in FY2023. With softening in input costs and some benefits of the peak season, the company's operating margins improved to 11.5% in Q1 FY2025. UBL has invested in various cost control, efficiency improvement and product innovations, which are expected to continue to support its margins. The company's working capital intensity rose in FY2024, mainly due to relatively higher receivables from the one of the largest state government beverage corporations. The debtor days were high in FY2024 and remained elevated in H1 FY2025. Going forward, timely receipt of the pending dues will be a key rating monitorable for the company.

UBL operates in a highly regulated industry with state-specific policies, which continue to impact the industry volumes in several markets. Going forward, any unfavourable policy change in key states will remain one of the key risk factors for the company and the industry. Though UBL commands a strong share in the domestic beer market, presence of other large international players and increasing competition from domestic players continue to impact the overall competition in the industry.

UBL plans to incur a capex of Rs. 250-300 crore in FY2025, ~Rs. 600 crore in FY2026 and a further enhanced amount in FY2027 for increasing its manufacturing footprint, upgrading its existing breweries (in terms of safety and manufacturing excellence), expanding via brownfield or greenfield facilities in states where capacity expansion is required, as well as making commercial capex investments. Its capex is expected to be funded through internal accruals and additional term debt, if required. While the company expects to fund the same mainly through internal accruals in FY2025 and FY2026, it may opt to avail term loans to partially fund the capex in FY2027. While the ongoing capex programme is likely to moderate UBL's debt indicators to some extent, the quantum of dividend payouts and debt raised for funding the capex will remain key monitorable for the company.

ICRA notes the order issued by the Competition Commission of India, directing UBL to pay ~Rs. 751.8 crore, alleging that UBL was engaged in price co-ordination in certain states and in cartelisation. On December 8, 2021, the company filed an appeal against the CCI order before the National Company Law Appellate Tribunal (NCLAT) and deposited 10% of the penalty amount. On December 22, 2022, NCLAT passed its judgment and dismissed the appeals filed by the company. Subsequently, in January 2023, UBL filed an appeal against the NCLAT order before the Supreme Court. In February 2023, the Supreme Court admitted the appeal and stayed the NCLAT order, subject to a deposit of an additional 10% of the total penalty amount. UBL has accordingly deposited 20% of the penalty amount till date with various authorities and currently, the matter continues to remain sub judice. ICRA will continue to monitor the developments in this regard to understand its impact on the business and financial profiles of the company and will review the situation following further developments.

Key rating drivers and their description

Credit strengths

Strong parentage with Heineken NV – As a 61.52% subsidiary of Heineken, UBL enjoys exceptional financial flexibility, which will continue to support its business prospects, going forward.

Strong brand portfolio and market position supported by robust manufacturing and distribution infrastructure – UBL has a long track record of operations in the domestic beer industry with a healthy market share on the back of its strong brand portfolio. UBL's market position is also supported by its pan-India manufacturing presence with 19 owned facilities and 12 contract manufacturing arrangements, a robust retail footprint and strong demand for its 'Kingfisher' and 'Heineken' brands.

High entry barriers in the industry favouring the incumbent; favourable long-term demand outlook – While the highly regulated nature of the industry with extensive Government controls on advertising and taxes restrict growth to a certain extent, it also creates entry barriers for new players, thereby favouring incumbents such as UBL. The long-term demand outlook for beer in the domestic market remains positive with favourable demographics, rising disposable income and urbanisation expected to drive growth of the Indian beer industry. This is also supported by the relatively lower per-capita consumption of beer in the country, compared to the average Asian as well as global consumption trends.

Strong financial profile with healthy margins, robust debt protection metrics and moderate working capital intensity – UBL's financial profile is characterised by minimal debt and robust debt protection metrics, moderate working capital intensity and a strong liquidity position, given the significant headroom available in the form of unutilised sanctioned limits. Further, the debt metrics and liquidity are expected to remain strong, supported by strong cash accruals, going forward.

Credit challenges

Margins remain exposed to volatility in raw material prices – Given the industry structure wherein the pricing is regulated by the state governments, industry players do not have the flexibility to pass on the increase in raw material costs to customers immediately. This makes the company's operating margins vulnerable to raw material price trends. The prices of barley and other key raw materials such as glass remained elevated in FY2024, impacting the margins to a certain extent. While margins are expected to improve in FY2025 following softening of barley and other inputs in addition to various cost control and efficiency improvement measures adopted by the company, UBL's margin trajectory amid highly volatile inputs costs will remain a key monitorable.

Highly regulated nature of the industry; state-specific events likely to impact overall volumes of UBL as well as the industry –

Extensive Government control, ban on advertising in mass media, and the varying tax structures in states pose challenges and restrict the growth of the industry. Further, UBL's volumes continue to be vulnerable to macro events such as demonetisation, general economic slowdown, pandemic and specific policy changes such as ban on sale of liquor near highways etc. In the past, the industry has also been impacted by complete ban of alcohol sales in few states.

Exposed to increasing competition –The competition in the industry continues to be high from both international majors as well as other domestic players and has impacted the company's market share to a certain extent in FY2023 and FY2024.

Further, the spike in the number of microbreweries and craft beer brands across major metros is increasing the overall basket of beer options available to the domestic consumers. Going forward, a strong market share, and consequent economies of scale, in addition to its strong product portfolio and wide distribution reach are expected to support UBL's business prospects.

Liquidity position: Strong

UBL's liquidity remains strong, with undrawn working capital limits of ~Rs. 1,158 crore, and cash balance of ~Rs. 49.0 crore as on September 30, 2024. In addition to the unutilised working capital facilities, the company enjoys healthy financial flexibility, enabling it to raise debt in a short notice. UBL plans to incur a capex of Rs. 250-300 crore in FY2025, Rs. 600 crore in FY2026 and a further enhanced amount in FY2027 for increasing its manufacturing footprint, upgrading its existing breweries (in terms of safety and manufacturing excellence), expanding via brownfield or greenfield facilities in states where capacity expansion is required, as well as making commercial capex investments. The planned capex is expected to be funded through internal accruals and additional term debt, if required.

Environmental and Social Risks

Environmental considerations: Environmental risks for industry players include risks during discharge of hazardous and pollutant wastes. All breweries of UBL are equipped with facilities to ensure treatment of wastewater before any kind of discharge. The company has taken up rainwater harvesting, watershed development and restoration and has active water conservation projects in several states. The company aims to incorporate sustainable packaging materials and invest in recycling of such materials. Further, UBL ensures appropriate segregation of hazardous and non-hazardous waste. Waste items that the company cannot dispose as a business on their own, are transferred to the respective authorities or management bodies at a local or regional level.

Social considerations: UBL is exposed to social risks, including shifts in consumer tastes that can accompany changing demographics, as well as evolving regulatory and societal attitudes towards alcoholic products, which can affect demand for its products. Further, UBL has high dependence on human capital. Retaining human capital, maintaining healthy relationships with employees and a safe work environment remain essential for disruption-free operations. The company's FY2024 annual report indicates that UBL has worked on several initiatives to enhance and improve safety practices.

Rating sensitivities

Positive factors – UBL's ratings could be upgraded, if there is significant improvement in the company's scale accompanied by healthy margins and debt protection metrics, on a sustained basis.

Negative factors – Pressure on UBL's ratings could arise, if a sustained material deterioration in margins and debt-funded capex, acquisitions or regulatory measures lead to weakening of its credit profile with Net Debt/OPBDITA of more than 1.0 times, on a sustained basis. Any significant dividend payout, adversely impacting the company's credit profile and liquidity position, may also lead to a review of the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of UBL.

About the company

United Breweries Limited (UBL) is engaged in manufacturing, marketing, and distribution of beer, primarily for the domestic market. UBL markets its products under various brands, including some popular brands like "Kingfisher Premium", "Bullet", "Heineken SILVER", "Kingfisher Strong", "Kingfisher Ultra" etc. Through several licensing arrangements, UBL's products are available in over 50 countries including Hong Kong, Singapore, and Australia. UBL owns 19 breweries across India and has 12 contract brewing arrangements with other brewers.

Key financial indicators (audited)

UBL Consolidated	FY2022	FY2023	FY2024
Operating income	5,838.4	7,499.9	8,122.7
PAT	366.1	304.7	410.9
OPBDIT/OI	11.9%	8.2%	8.6%
PAT/OI	6.3%	4.1%	5.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.6	0.7
Total debt/OPBDIT (times)	0.0	0.0	0.1
Interest coverage (times)	47.1	132.8	101.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount Rated (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022	
				Oct 29, 2024	Oct 31, 2023	Oct 31, 2022	Oct 29, 2021	Oct 5, 2021
1	Term Loan	Long Term	-	-	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)
2	Fund- based	Long Term/Short term	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
3	Non-Fund Based	Long Term/Short term	-	-	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+
4	Fund-based/Non-fund based	Long Term/Short term	1,380.0	[ICRA]AA+ (Stable)/ [ICRA]A1+	[ICRA]AA+ (Stable)/ [ICRA]A1+	-	-	-
5	Commercial Paper	Short Term	100.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based/Non-fund based – Long Term/ Short Term	Simple
Commercial Paper – Short Term	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Long Term/ Short Term Fund-based/non-fund based**	NA	NA	NA	1,380.0	[ICRA]AA+ (Stable)/ [ICRA]A1+
Unutilised	**Commercial Paper**	NA	NA	7-365 days	100.0	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	UBL Ownership	Consolidation Approach
Maltex Masters Limited	51.00%	Full Consolidation

Source: UBL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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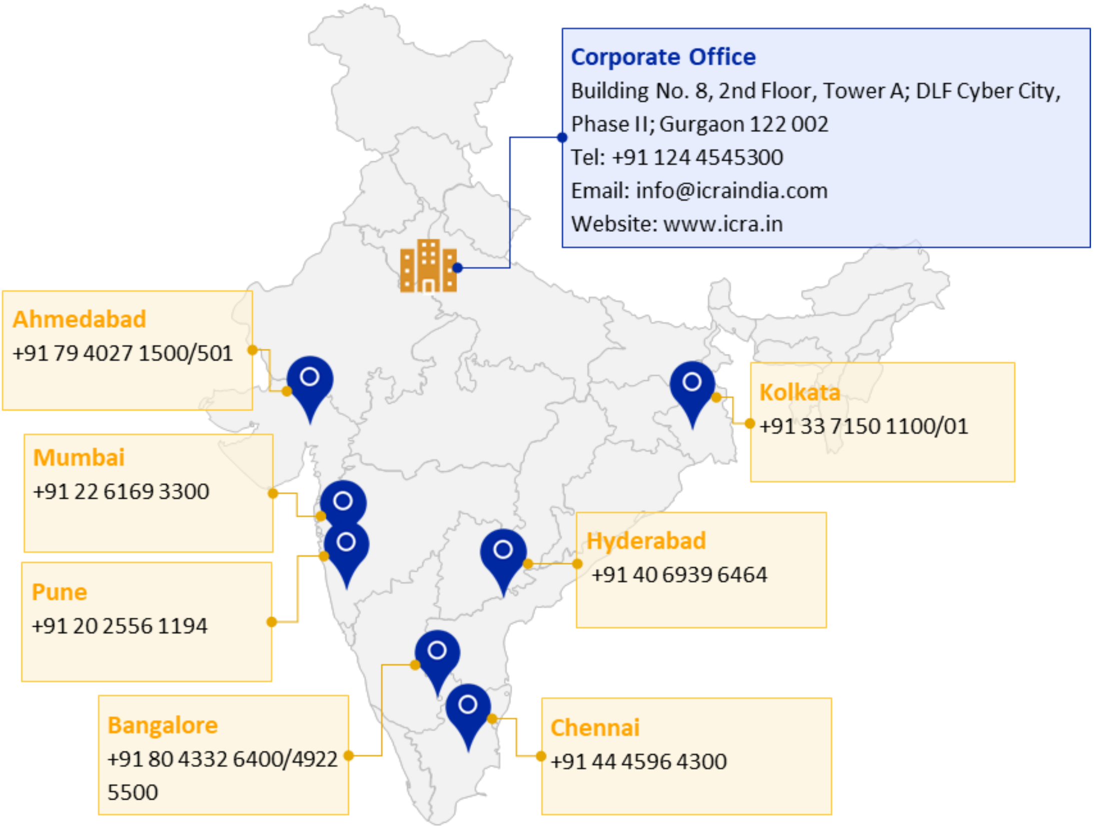

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